



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Joseph Horwedel  
William McDonald  
David Sykes  
Jennifer A. Maguire

**SUBJECT:** SEE BELOW

**DATE:** May 23, 2013

Approved

Date

5/24/13

**SUBJECT: ELIMINATION OF THE DEVELOPMENT SERVICES TECHNOLOGY  
FEE AND RELATED RECOMMENDED APPROPRIATION AND  
FUNDING SOURCES AMENDMENTS IN THE GENERAL FUND**

## **RECOMMENDATION**

It is recommended that the City Council:

1. Amend the 2013-2014 Proposed Fees and Charges to eliminate the proposed Technology Fee in the Fire Department (Fire Prevention Development Program), Planning, Building and Code Enforcement Department (Building and Planning Fee Programs), and Public Works Department (Development Program Fees).
2. Approve the following amendments to the 2013-2014 Proposed Operating Budget in the General Fund, subject to approval of the Manager's Budget Addendum associated with the Recommended Amendments to the 2013-2014 Proposed Operating Budget:
  - a. Decrease the revenue estimate for Licenses and Permits by \$546,000;
  - b. Decrease the revenue estimate for Departmental Charges by \$171,000;
  - c. Increase the Development Fee Program Technology Earmarked Reserve by \$4,728,000;
  - d. Decrease the Building Development Fee Program Earmarked Reserve by \$4,200,000;
  - e. Decrease the Fire Development Fee Program Earmarked Reserve by \$630,000;
  - f. Decrease the Planning Development Fee Program Earmarked Reserve by \$60,000; and
  - g. Decrease the Public Works Development Fee Program Earmarked Reserve by \$555,000.

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## **OUTCOME**

The recommended actions will set aside funding in an Earmarked Reserve for Development Fee Program Technology to fund technology initiatives for Development Services. Also included is a recommendation to defer consideration of a new 2% Technology Fee for six to 12 months to provide the Development Services Partners (Building, Fire, Planning, and Public Works) time to develop a more detailed and refined cost estimate of the capital technology investments needed over the next ten years and beyond. These investments are critical in bringing the Development Services technology up-to-date so San José can provide the level of service expected by its customers.

## **BACKGROUND**

The 2013-2014 Proposed Fees and Charges includes a recommended 2% Development Services Technology Fee applied to all development permits. The funds collected from this fee would be dedicated to updating and enhancing the larger development technology systems, allowing the Partners to accelerate the acquisition and deployment of these systems, as well as to ensure large system replacements occur in a timely fashion over the long term.

Each Partner maintains a Works In Progress liability (WIP Reserve) that is set aside for permits which have been paid for, but work has not been completed. The estimated WIP Reserve for each Partner with the actions recommended in the 2013-2014 Proposed Operating Budget is listed below:

Building Development Fee Program:	\$10,513,670
Fire Development Fee Program:	\$ 4,253,394
Planning Development Fee Program:	\$ 847,673
Public Works Development Fee Program:	\$ 3,573,523

Additional recommendations to recognize additional revenue collections as a result of the continued strong development activity and expenditure savings as a result of vacancy and cost savings will be brought forward as part of the 2012-2013 Year-End Clean-Up process. These recommendations will further increase the reserve for each Partner as follows:

Building Development Fee Program:	\$16,813,670
Fire Development Fee Program:	\$ 5,253,394
Planning Development Fee Program:	\$ 1,197,673
Public Works Development Fee Program:	\$ 5,273,523

## **ANALYSIS**

The Development Services Partners currently support and maintain the AMANDA permitting system, OnLine Permits, and the FileNet document imaging system. Year-to-date as of April 30, 2013, for example, staff processed 22,329 permits and collected over \$107 million using

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AMANDA, and imaged nearly 120,000 documents using FileNet. These documents, including plans, permits, and building inspection notices, can be accessed through the OnLine Permits website where customers can view permits, retrieve zoning, General Plan and other information, as well as purchase online permits.

These systems are outdated and need to be replaced. AMANDA was implemented in 2001 and, while functional, is not web-based. FileNet was implemented in 1998 and is currently failing. Over the last five months, \$24,600 in emergency repairs and parts has been spent to keep FileNet running, and over 64 hours in staff time has been required for emergency repairs and disk cleaning. The OnLine Permits website became active in May 2003. While it continues to provide online purchasing and viewing capabilities, the technology needs to be redesigned and upgraded to meet the demands of the current development community.

Based on the outdated technology currently in use, and the desire to streamline business processes such as inspections, plan review, and permit processing with newer technology, the Partners are developing a ten-year technology acquisition plan. This plan is based on estimated implementation costs and timelines possible with current staffing levels. Assuming staffing and funding are available, the Partners estimate implementing the following technology initiatives during the following fiscal years:

- FileNet replacement – 2013-2014
- AMANDA upgrade – 2013-2014
- GIS Viewer and Upgrade for Online Permits – 2013-2015
- Online Data Sharing – 2014-2015
- Mobile Inspections – 2014-2015
- Permit System Replacement – 2014-2019
- Permit System People Record/Address Clean-up – 2015-2017
- Electronic Plan Submittal and Review – 2017-2019

The proposed costs for implementation of the above projects, including hardware, software, and professional services, is approximately \$13.7 million over the ten-year timeframe. Due to the implementation timing, the amount of funding needed in 2016-2017 exceeds \$5 million, and the funding needed for 2017-2018 exceeds \$4 million. In order to meet established timelines, the Partners will be hiring a Program Manager and an Information Systems Analyst to allow current staff to support existing systems while the new systems are implemented. Despite the ten-year timeframe, the schedule is aggressive when considering the amount of time required to prepare a Request for Proposal and that existing Development Services staff, knowledgeable in current workflows, will be diverted from critical work to provide the support needed for new system implementation and testing.

Since the hourly rate charged for Development permits does not include funding for capital infrastructure purchases, large Development Services technology projects prior to 2008 were funded from the Partners' WIP Reserves. In the past, the AMANDA, FileNet, and OnLine Permits (major technology investments for Development Services) were paid from the WIP Reserves. Small fee increases were implemented to help fund ongoing maintenance costs for

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staffing and consulting. However, due to the downturn in the economy from 2008 to 2010, the reserves were barely covering the costs for staffing to provide basic services, and funding available in the non-personal budget was used only for maintenance of existing systems. This severe, although temporary, lack of funding resulted in the current situation where the outdated and failing technology has become too old to meet customer needs before new systems could be purchased and implemented. As the economy and development activity becomes stronger, the reserves are growing such that a portion of them can be set aside for large capital infrastructure purchases.

Because the WIP reserves represent the City's obligations to complete work on development applications and inspections, the WIP reserves cannot cover the entire costs associated with implementation of the Technology Plan and a fee is needed to make up the balance of the funding. The Partners propose to move funding from each Partner's WIP Fee Reserve into an Earmarked Reserve for Development Fee Program Technology, and defer consideration of a new 2% Technology Fee for six to 12 months to provide Development Services Partners time to develop a more detailed and refined cost estimate of the capital technology investments needed over the next ten years. This refined cost estimate will be developed by submitting Requests for Information and reviewing submittals for the larger acquisitions proposed in the ten year technology plan, specifically the Permit System Replacement, Online Data Sharing, and the Mobile Inspection projects.

When considering funding for the ten year Technology acquisition plan, the Partners carefully looked at existing reserves and works in progress to determine the amounts to be set aside in a Development Fee Program Technology Reserve in order to provide a basic level of funding for technology despite unpredictable economic trends. The total funding recommended to be set aside in the Development Fee Program Technology Reserve will be \$5,445,000 (\$4,200,000 from Building Development, \$630,000 from Fire Development, \$60,000 from Planning Development, and \$555,000 from Public Works Development). The table below reflects the anticipated WIP Reserve at the beginning of 2013-2014, which takes into account works in progress liabilities, after recommended 2013-2014 clean-up actions for personal services and non-personal funding and the recommended set aside for the Development Fee Program Technology Reserve.

<b>Fee Program</b>	<b>Estimated WIP Reserve After 2012-2013 Reconciliation</b>	<b>Estimated 2013-2014 Clean-Up Actions</b>	<b>Recommended Funding Set Aside in Technology Reserve</b>	<b>2013-2014 Anticipated Reserve (as of July 1, 2013)</b>
Building Development	\$16,813,670	(\$300,000)	(\$4,200,000)	\$12,313,670
Fire Development	\$5,253,394	\$0	(\$630,000)	\$4,623,394
Planning Development	\$1,197,673	(\$437,000)	(\$60,000)	\$700,673
Public Works Development	\$5,773,523	\$0	(\$555,000)	\$4,718,523

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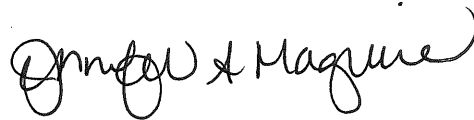
**COORDINATION**

This Manager's Budget Addendum has been coordinated with the City Attorney's Office.

/s/

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